



SAN FRANCISCO PENINSULA RESEARCH & FORECAST REPORT



Mixed Signals

OFFICE OVERVIEW

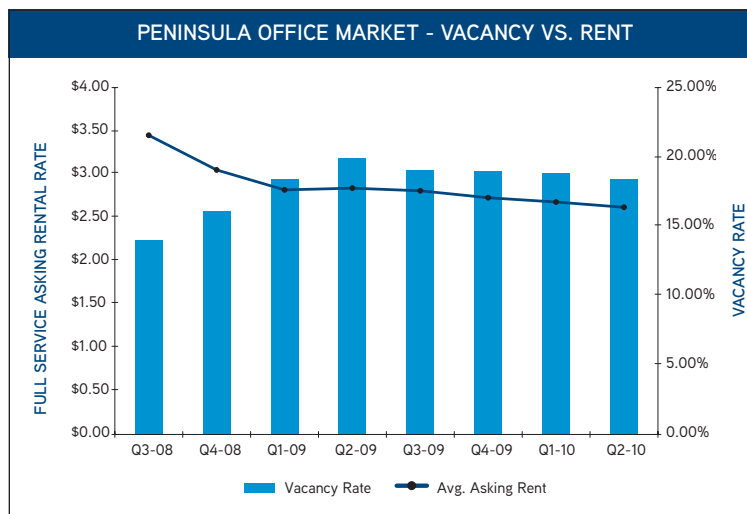
If there is any sector of our shaky economy that is sending mixed signals, it is the commercial real estate market. While, by any measure, the broader markets have seen substantive improvement over the past twelve months, leasing activity remains well below average levels. At the same time as lease rates for R&D space in the area slide to levels not seen since the third quarter of 2006, rents have shown noteworthy growth in some submarkets, particularly in the past two quarters. The office vacancy rate for San Mateo County currently stands at 18.4%, a nominal improvement over last quarter's 18.8%, but a marked change from a year ago, when the rate stood at 19.9%. The Greater Peninsula's vacancy rate of 17.0% also represents a strong improvement over the prior year's 18.4% rate. While these statistics are a clear indicator of an improvement from the bottom seen a year ago, the broad markets remain sluggish.

Contrast these relatively grim statistics with snapshots of various submarkets that appear to be in a full-fledged recovery: Downtown Mountain View, where Colliers major building vacancy index stands at 4.5%, has not only seen substantial increases in asking rates at select buildings, but also has ±100,000 square feet of to-be-built entitled office space actively on the market, a bullish sign. Downtown Palo Alto, with a comparably low vacancy rate, has seen even more dramatic rise in rental rates, with recent leases such as Jive Software's 18,000 square foot transaction, with rents reported in excess of \$6.00 NNN per square foot, a figure not seen in downtown Palo Alto since the first quarter of 2008. Up the Peninsula, the high-end office market in Foster City has seen the vacancy rate plummet to 6.9% in the wake of the recent 22,000 square foot Nexant lease. Redwood Shores, a magnet for small to mid-size tenants and, as such, an excellent indicator of start-up activity in the area, has seen lease rates drop substantively over the past year. However, activity

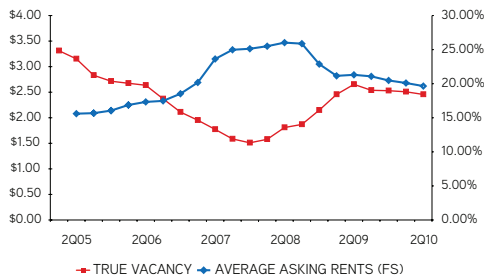
MARKET INDICATORS

	Q2 2010	Q1 2010	
VACANCY RATE	18.4%	18.8%	↓
TOTAL VACANCY	6,174,020 SF	6,300,044 SF	↓
GROSS ABSORPTION	741,623 SF	688,826 SF	↑
NET ABSORPTION	150,524 SF	(77,755) SF	↑
WTD AVG ASKING RENT	\$2.62 FS	\$2.68 FS	↓

"...the dichotomy between the stronger and weaker portions of the local market has grown to a surprising level."



SAN MATEO COUNTY OFFICE HISTORICAL RENT VS VACANCY



levels in this pocket have been on a steady rise, and the submarket has been one of the few in the region to have vacancy rates drop for four quarters running. Of particular note is Equinix Inc. recent expansion out of Foster City into 78,671 square feet at 1 Lagoon Parkway.

limited number of transactions. Seasoned observers will look to indicators such as increasing gross absorption and job growth as signs of a recovering market.

R&D/INDUSTRIAL OVERVIEW

Larger tenants have, cautiously, returned to the market of late—perhaps most noteworthy is that these large tenants seem less disposed to delay real estate decisions than a year ago—with recent large leases by Lucile Packard Children’s Hospital in Menlo Park, Research In Motion in Redwood Shores, and Wells Fargo in San Carlos all having a positive effect on absorption. While WalMart.com’s recent ±260,000 square foot lease in South San Francisco (commencing in 2012) will not have the same immediate impact to the vacancy rate as the aforementioned transactions, it resonates in the marketplace.

San Mateo County’s R&D market vacancy continued to rise in the second quarter of 2010 with industrial vacancy dropping slightly. While vacancy rates are no longer increasing as quickly as the past couple of years, the outlook for both the R&D and industrial markets remains in flux. The ebb and flow of the unemployment rate in San Mateo County, which has increased to 9.2% in April from 8.9% in December of 2009, is a large factor that will directly affect both R&D and industrial sectors in the future.

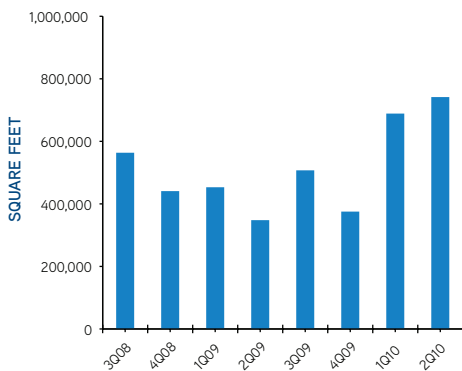
While these positive developments have certainly created a sense of momentum, the dichotomy between the stronger and weaker portions of the local market has grown to a surprising level. As the spread between asking rates for the classes of space increases, and class ‘A’ space becomes truly scarce, a much broader upward pressure on rents seems inevitable.

The R&D vacancy rate currently stands at 19.7%, an increase from first quarter’s 18.5% rate. Palo Alto’s large vacancy jump from 4.9% to 13.8% was due to the Roche campus adding 900,000 square feet of R&D space in the month of June. San Mateo County’s industrial vacancy decreased slightly to 9.5% in the second quarter from 9.8% last quarter.

Most observers of the real estate market will latch on to vacancy rate and rents as the most important indicator of a market’s strength. In a finite market such as the Peninsula, these ‘first-glance’ stats can be highly misleading and easily influenced by a single large availability or a

San Mateo County’s R&D net absorption was a negative 177,567 in the second quarter with gross absorption of 214,323 square feet. Standing out among local submarkets was South San Francisco, which was the site of FivePrime Therapeutics 70,000 square foot transaction during the second quarter. The industrial net absorption for the second quarter was 151,280 square feet, which marked the first positive net

PENINSULA OFFICE GROSS ABSORPTION



2Q 2010 SAN MATEO COUNTY OFFICE DEAL VELOCITY		
SIZE RANGE	TOTAL SF	# OF DEALS
LESS THAN 3K SF	76,184	42
3-5K SF	128,904	34
5-10K SF	148,023	22
10-20K SF	87,461	6
20-50K SF	62,402	2
GREATER THAN 50K SF	238,649	3
TOTAL	741,623	109

MARKET ACTIVITY			
SIGNIFICANT SECOND QUARTER TRANSACTIONS			
PROPERTY ADDRESS	SQUARE FEET	TENANT	TYPE
4100, 4700 Bohannon Drive, Menlo Park	109,534	Lucile Packard Children’s Hospital	Office
401 Ellis Street, Mountain View	100,842	Symantec Corporation	R&D
1 Lagoon Drive, Redwood City	78,671	Equinix, Inc.	Office
2 Corporate Drive, South San Francisco	70,235	Five Prime Therapeutics Inc.	R&D
3401 Hillview Avenue, Palo Alto	64,893	VMware, Inc.	R&D
189 North Bernardo Avenue, Mountain View	41,531	SETI Institute	R&D
959 Skyway Drive, San Carlos	40,257	Wells Fargo	Office
220 Portage Avenue, Palo Alto	27,443	Box.Net	Warehouse

OFFICE MARKET STATISTICS

SECOND QUARTER 2010

Existing Properties			Direct Vacancy		Sublease Vacancy		Total Vacancy			Total Occupancy	Net Absorption		Rent
Class	Bldgs	Total Inventory Sq. Ft.	Sq. Ft.	Rate	Sq. Ft.	Rate	Sq. Ft.	Rate Q2-2010	Rate Q1-2010	Current Occupied Sq. Ft.	Q2-2010	YTD	Wtd Avg Asking Rate

SOUTH PENINSULA

MOUNTAIN VIEW/LOS ALTOS

A	31	2,427,929	189,378	7.8%	2,979	0.1%	192,357	7.9%	4.5%	2,235,572	(81663)	(24390)	\$3.21
B/C	147	2,447,535	344,136	14.1%	17,428	0.7%	361,564	14.8%	15.0%	2,085,971	6,175	(10,526)	\$2.68
TOTAL	178	4,875,464	533,514	10.9%	20,407	0.4%	553,921	11.4%	9.8%	4,321,543	(75,488)	(34,916)	\$2.84

PALO ALTO

A	63	2,806,466	251,523	9.0%	128,365	4.6%	379,888	13.5%	12.5%	2,426,578	(32,822)	(98,236)	\$4.70
B/C	187	3,330,171	380,868	11.4%	96,040	2.9%	476,908	14.3%	13.8%	2,853,263	(49,645)	(85,336)	\$3.49
TOTAL	250	6,136,637	632,391	10.3%	224,405	3.7%	856,796	14.0%	13.2%	5,279,841	(82,467)	(183,572)	\$4.18

*THE SOUTH PENINSULA CITIES OF MOUNTAIN VIEW AND PALO ALTO ARE FOR REFERENCE PURPOSES AS THEY ARE NOT INCLUDED IN THE SAN MATEO COUNTY MARKET TOTALS BELOW.

SAN MATEO COUNTY

MENLO PARK

A	34	1,662,927	37,916	2.3%	60,376	3.6%	98,292	5.9%	7.0%	1,564,635	41,013	48,707	\$7.93
B	71	2,177,894	357,877	16.4%	47,017	2.2%	404,894	18.6%	21.4%	1,773,000	60,783	62,175	\$4.05
TOTAL	105	3,840,821	395,793	10.3%	107,393	2.8%	503,186	13.1%	15.2%	3,337,635	101,796	110,882	\$4.81

REDWOOD CITY

A	20	2,440,446	254,234	10.4%	555,788	22.8%	810,022	33.2%	31.6%	1,630,424	(38,770)	(38,770)	\$2.54
B	36	1,336,245	335,909	25.1%	29,902	2.2%	365,811	27.4%	21.0%	970,434	(85,007)	(97,418)	\$2.33
TOTAL	56	3,776,691	590,143	15.6%	585,690	15.5%	1,175,833	31.1%	27.9%	2,600,858	(123,777)	(136,188)	\$2.47

BELMONT/SAN CARLOS

A	9	882,682	442,064	50.1%	16,873	1.9%	458,937	52.0%	51.9%	423,745	(750)	(16,947)	\$2.54
B	13	673,289	128,057	19.0%	3,741	0.6%	131,798	19.6%	19.3%	541,491	(1,695)	5,068	\$2.34
TOTAL	22	1,555,971	570,121	36.6%	20,614	1.3%	590,735	38.0%	37.8%	965,236	(2,445)	(11,879)	\$2.50

REDWOOD SHORES

A	49	5,350,533	511,198	9.6%	119,631	2.2%	630,829	11.8%	13.6%	4,719,704	98,318	68,052	\$2.40
B	5	172,852	15,770	9.1%	-	0.0%	15,770	9.1%	10.9%	157,082	3,129	3,129	\$1.91
TOTAL	54	5,523,385	526,968	9.5%	119,631	2.2%	646,599	11.7%	13.5%	4,876,786	101,447	71,181	\$2.39

SAN MATEO

A	25	2,822,840	324,098	11.5%	215,190	7.6%	539,288	19.1%	16.4%	2,283,552	(75,085)	(27,257)	\$2.27
B	69	4,029,566	794,067	19.7%	162,281	4.0%	956,348	23.7%	24.1%	3,073,218	14,322	(66,454)	\$2.25
TOTAL	94	6,852,406	1,118,165	16.3%	377,471	5.5%	1,495,636	21.8%	20.9%	5,356,770	(60,763)	(93,711)	\$2.26

FOSTER CITY

A	14	2,686,494	174,423	6.5%	17,319	0.6%	191,742	7.1%	9.2%	2,494,752	54,514	123,504	\$2.70
B	14	576,068	11,586	2.0%	21,534	3.7%	33,120	5.7%	4.7%	542,948	(5,859)	18,119	\$1.89
TOTAL	28	3,262,562	186,009	5.7%	38,853	1.2%	224,862	6.9%	8.4%	3,037,700	48,655	141,623	\$2.58

BURLINGAME

A	6	758,931	164,234	21.6%	12,140	1.6%	176,374	23.2%	25.8%	582,557	19,496	35,648	\$2.05
B	24	1,053,558	138,458	13.1%	-	0.0%	138,458	13.1%	13.1%	915,100	(746)	(20,027)	\$2.03
TOTAL	30	1,812,489	302,692	16.7%	12,140	0.7%	314,832	17.4%	18.4%	1,497,657	18,750	15,621	\$2.04

SAN BRUNO/MILLBRAE

A	9	1,132,078	130,427	11.5%	47,569	4.2%	177,996	15.7%	15.5%	954,082	(3,012)	10,527	\$2.03
B	11	371,840	65,440	17.6%	-	0.0%	65,440	17.6%	9.2%	306,400	(31,332)	(31,332)	\$1.97
TOTAL	20	1,503,918	195,867	13.0%	47,569	3.2%	243,436	16.2%	13.9%	1,260,482	(34,344)	(20,805)	\$2.01

DALY CITY

A	4	668,291	42,287	6.3%	1,400	0.2%	43,687	6.5%	4.9%	624,604	(10,905)	(10,316)	\$1.97
B	10	285,853	30,304	10.6%	-	0.0%	30,304	10.6%	15.6%	255,549	14,174	13,738	\$1.96
TOTAL	14	954,144	72,591	7.6%	1,400	0.1%	73,991	7.8%	8.1%	880,153	3,269	3,422	\$1.97

SOUTH SAN FRANCISCO

A	16	2,704,488	469,502	17.4%	139,378	5.2%	608,880	22.5%	23.3%	2,095,608	20,153	(63,262)	\$3.10
B	13	880,060	31,025	3.5%	68,421	7.8%	99,446	11.3%	23.4%	780,614	106,925	82,898	\$2.20
TOTAL	29	3,584,548	500,527	14.0%	207,799	5.8%	708,326	19.8%	23.3%	2,876,222	127,078	19,636	\$2.97

BRISBANE

A	5	674,888	169,484	25.1%	-	0.0%	169,484	25.1%	20.8%	505,404	(29,142)	(24,600)	\$2.58
B	4	176,587	27,100	15.3%	-	0.0%	27,100	15.3%	15.3%	149,487	0	(2,393)	\$1.95
TOTAL	9	851,475	196,584	23.1%	-	0.0%	196,584	23.1%	19.7%	654,891	(29,142)	(26,993)	\$2.49

SAN MATEO COUNTY MARKET TOTAL

A	191	21,784,598	2,719,867	12.5%	1,185,664	5.4%	3,905,531	17.9%	18.2%	17,879,067	75,830	105,286	\$2.66
B	270	11,733,812	1,935,593	16.5%	332,896	2.8%	2,268,489	19.3%	20.0%	9,465,323	74,694	(32,497)	\$2.55
TOTAL	461	33,518,410	4,655,460	13.9%	1,518,560	4.5%	6,174,020	18.4%	18.8%	27,344,390	150,524	72,789	\$2.62

R&D MARKET STATISTICS

SECOND QUARTER 2010

Existing Properties			Direct Vacancy		Sublease Vacany		Total Vacancy			Total Occupancy	Net Absorption		Rent
City	Bldgs	Total Inventory Sq. Ft.	Sq. Ft.	Rate	Sq. Ft.	Rate	Sq. Ft.	Rate Q2-2010	Rate Q1-2010	Current Occupied Sq. Ft.	Q2-2010	YTD	Wtd Avg Asking Rate
SOUTH PENINSULA													
MOUNTAIN VIEW	274	13,971,801	912,851	6.5%	484,778	3.5%	1,397,629	10.0%	11.1%	12,574,172	122,991	71,800	\$1.54
PALO ALTO	59	10,292,315	998,068	9.7%	425,678	4.1%	1,423,746	13.8%	4.9%	8,868,569	(915,471)	(925,471)	\$2.69

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SAN MATEO COUNTY

MENLO PARK	58	2,308,198	524,753	22.7%	93,983	4.1%	618,736	26.8%	12.4%	1,689,462	(333,405)	(337,767)	\$1.39
REDWOOD CITY	64	2,377,304	424,102	17.8%	73,710	3.1%	497,812	20.9%	15.5%	1,879,492	(129,447)	(41,344)	\$1.18
BELMONT/ SAN CARLOS	49	1,746,770	256,459	14.7%	114,956	6.6%	371,415	21.3%	16.0%	1,375,355	(91,361)	(159,320)	\$1.27
SAN MATEO/ FOSTER CITY	58	1,676,101	70,169	4.2%	0	0.0%	70,169	4.2%	5.2%	1,605,932	16,688	34,294	\$0.85
SAN BRUNO/ BURLINGAME	29	705,312	79,473	11.3%	28,840	4.1%	108,313	15.4%	9.5%	596,999	(41,065)	(33,065)	\$0.90
SOUTH SAN FRANCISCO/ BRISBANE	97	5,923,908	686,652	11.6%	557,302	9.4%	1,243,954	21.0%	27.8%	4,679,954	401,023	374,711	\$2.00

SAN MATEO COUNTY MARKET TOTAL

TOTAL	355	14,737,593	2,041,608	13.9%	868,791	5.9%	2,910,399	19.7%	18.5%	11,827,194	(177,567)	(171,491)	\$1.57
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INDUSTRIAL MARKET STATISTICS

SECOND QUARTER 2010

Existing Properties			Direct Vacancy		Sublease Vacany		Total Vacancy			Total Occupancy	Net Absorption		Rent
City	Bldgs	Total Inventory Sq. Ft.	Sq. Ft.	Rate	Sq. Ft.	Rate	Sq. Ft.	Rate Q2-2010	Rate Q1-2010	Current Occupied Sq. Ft.	Q2-2010	YTD	Wtd Avg Asking Rate
SOUTH PENINSULA													
MOUNTAIN VIEW	148	2,698,054	163,906	6.1%	-	0.0%	163,906	6.1%	8.5%	2,534,148	36,423	(21,421)	\$1.00

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SAN MATEO COUNTY

MENLO PARK	92	2,920,524	375,450	12.9%	0	0.0%	375,450	12.9%	11.5%	2,545,074	(40,961)	(91,441)	\$0.88
REDWOOD CITY	178	4,152,952	288,820	7.0%	155,465	3.7%	444,285	10.7%	9.8%	3,708,667	(35,249)	(35,669)	\$0.64
BELMONT/ SAN CARLOS	219	5,442,444	144,068	2.6%	32,900	0.6%	176,968	3.3%	2.6%	5,265,476	(33,249)	(51,949)	\$1.10
SAN MATEO/ FOSTER CITY	70	1,272,630	108,960	8.6%	20,000	1.6%	128,960	10.1%	10.6%	1,143,670	6,000	1,211	\$1.00
BURLINGAME	161	4,718,030	288,532	6.1%	50,781	1.1%	339,313	7.2%	11.5%	4,378,717	204,675	228,540	\$1.06
SAN BRUNO/MILLBRAE	24	753,808	0	0.0%	0	0.0%	0	0.0%	0.0%	753,808	0	-	N/A
BRISBANE/DALY CITY	100	4,918,049	470,871	9.6%	109,570	2.2%	580,441	11.8%	11.0%	4,337,608	(39,799)	(77,924)	\$0.73
SOUTH SAN FRANCISCO	411	16,629,073	1,757,087	10.6%	56,240	0.3%	1,813,327	10.9%	11.4%	14,815,746	89,863	140,142	\$0.76

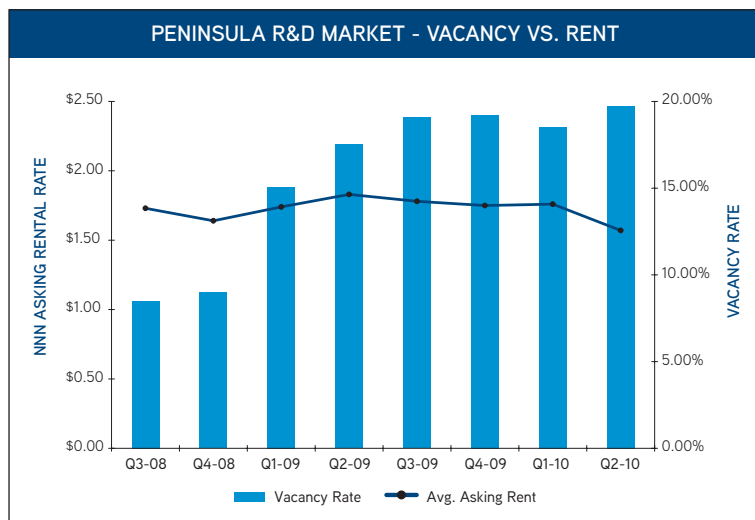
SAN MATEO COUNTY MARKET TOTAL

TOTAL	1,255	40,807,510	3,433,788	8.4%	424,956	1.0%	3,858,744	9.5%	9.8%	36,948,766	151,280	112,910	\$0.80
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absorption for the industrial market since the second quarter of 2008. Gross absorption for the second quarter showed total leasing activity of 324,654 square feet, a significant improvement over the 223,841 square feet in the first quarter.

The average asking rents for both R&D and industrial markets continued to decrease in the second quarter. R&D asking rates dropped 11%

to \$1.57 NNN in the first quarter from \$1.76 NNN in the previous quarter. Industrial average asking rates decreased two cents, to where it currently stands at \$0.80 NNN. As rents continue to decrease, the outlook for the R&D and industrial markets will continue to be a tenant's market until an upswing in venture capital investment and job growth returns.



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480 offices in 61 countries on 6 continents

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Canada: 39
Latin America: 17
Asia Pacific: 194
EMEA: 95

- > \$1.9 billion in annual revenue
- > 2.4 billion square feet under management
- > Over 15,000 professionals

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